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AICPA *Washington Report*

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AGRICULTURE, DEPARTMENT OF

Interim regulations to implement the requirements of the Special Supplemental Food Program authorized by recent amendments to the 1966 Child Nutrition Act, are contained in the 1/12/76 Fed. Reg., p. 1743. Part of the revision reflects incorporation of Federal Management Circular (FMC) 74-7. Section 246.10 provides that each state agency will conduct audits of the funds and operations of the State and local agency WIC Programs, at least once every 2 years. State agencies may engage CPAs to conduct such audits. Comments on these interim regulations will be accepted until 3/1/76.

Recent reports disclosing the misuse of millions of dollars in the food stamp program has resulted in a major step-up by the Department to audit more than 6700 vendors that sell food stamps to the public. It is reported that some 200 internal auditors and investigators have been assigned to the project.

The Chairman of the House Agriculture Committee, just prior to the close of the first session, indicated that one of the first orders of business upon return would be an inquiry into this particular program. On the Senate side, Sen. Javits (D-NY), Chairman of the Government Operations Committee, has introduced a proposal (S.2840) to amend the 1964 Food Stamp Act to require the Secretary to institute procedures whereby federal, state and local government officials reconcile all records related directly or indirectly to the disbursement of food stamp coupons so that a current account of such records may be maintained.

COST ACCOUNTING STANDARDS BOARD

Comments received on a staff issue paper on the subject of distinguishing between direct and indirect costs are being examined with a view toward possible development of a Standard. The paper was based on a preliminary study of the problem and was issued for the purpose of gaining material aid from outsiders. Alternative tests were suggested in the paper for deciding whether use of a resource does or does not give rise to a direct cost: identifiability of the resource used with contracts and other final cost objectives; identifiability of the resource used with the product of contracts and other final cost objectives; combination of contract and product identifiability; and cost-behavior characteristics of the resource used.

FEDERAL ELECTION COMMISSION

Proposed regulations on compliance procedures have been published (see 1/15/76 Fed. Reg., p. 2251). These compliance procedures pertain to any charges brought by the Commission or through private complaints pursuant to the federal election campaign laws. The Commission has specifically requested comments on whether a hearing requested by a respondent in a compliance action should be open to the public; if such a hearing is closed, should the complainant be present; and, whether there should be public disclosure of the results of an investigation. Comments on the proposals are due by 2/17/76.

FEDERAL ENERGY ADMINISTRATION

Proposed amendments implementing portions of the recently-passed Energy Policy Act appear in the 1/15/76 Fed. Reg., p. 2249. Included is a new section dealing for the first time with the individual liability of "corporate directors, officers, or agents" for their participation in unlawful activities. The

proposed amendments clarify the new provision, making it clear that the term "agent" is to include "all employees or other persons acting either with or without authority on behalf of a corporation on either a temporary or permanent basis. . ."

FEDERAL RESERVE BOARD

The accuracy and adequacy of examinations of U.S. banks will be the subject of a hearing Tuesday morning before the House Subcommittee on Consumer and Monetary Affairs. The hearing is partly in response to newspaper reports that certain major banks were listed on the Comptroller of the Currency's "problem list".

Senator Proxmire, Chairman of the Senate Banking Committee, has also indicated that he intends to hold a formal inquiry in the area of bank regulation. Proxmire is the chief sponsor of a Senate bill calling for consolidation of the regulatory process in the banking industry.

In response to a working draft on governmental obligations prepared by the AICPA, the Chairman of the FRB, joined by the Comptroller of the Currency and the Chairman of the FDIC, has raised strong objections to the new rules as proposed. These comments are contained in a joint letter to the Institute dated 12/24/75. The agencies noted "significant flaws in the basic premise of the Statement and believe that far more consideration of the issues is imperative". They were unanimous in their view that if the Institute's position as advocated, if logically extended, would impair the ability of numerous debtors to work out equitable repayment terms with their creditors and thus would have a harmful effect on the Nation's economy.

FEDERAL TRADE COMMISSION

The U.S. Chamber of Commerce and 48 major companies have come forward in court to halt the FTC's controversial Corporate Patterns Report program. The CPR project, which was initiated more than a year ago, would require certain large manufacturers to provide detailed information on their operations employing segment reporting by industry category. Part of the argument is that the information would serve a similar purpose as the "line of business" program which is also under challenge. Also, the plaintiffs charge that the program violates the 4th and 5th Amendments of the U.S. Constitution.

HEALTH, EDUCATION, AND WELFARE, DEPARTMENT OF

Proposed regulations for the purpose of implementing the Native American Programs Act were published in the 1/13/76 Fed. Reg., p. 2046. The Act authorizes financial assistance to promote economic and social self-sufficiency for Native Americans. The proposals call for an annual project audit by an independent auditor and that applications for financial assistance may be required to be accompanied by an accounting certification prepared by an independent auditor. Comments on the proposals are due by 2/27/76.

Proposals to turn over control to the states of \$10 billion in health programs, including some \$8 billion in Medicaid money for the poor, are expected to be announced by the President this week when he delivers his budget message to Congress. Following reports over the last several weeks that the President will advocate consolidation of several health programs, an announcement was

made last week by federal health officials that the President would propose giving states block or lump sum revenue-sharing grants to fund not only Medicaid but 16 other programs such as health planning agencies, neighborhood health centers, community mental health centers, migrant health programs, and immunizations for children.

INTERSTATE COMMERCE COMMISSION

The 89th Annual Report for the Fiscal Year ending 6/30/75 is now available.

The report to Congress examines the manner in which the Commission carried out its responsibilities, with an analysis of the condition of the industries regulated. Copies are available from the GPO (S/N 026-000-01015-2) for \$1.65 each.

LABOR, DEPARTMENT OF

Finalized regulations governing the performance of actuarial services under ERISA have been issued by the Joint Board for the Enrollment of Actuaries (see 1/14/76 Fed. Reg., p. 2080).

John T. Dunlop has announced his resignation as Secretary of Labor, effective 2/1/76. Mr. Dunlop, who has been threatening to resign since the President vetoed the common situs picketing bill, cited a loss of communications, confidence, and trust among labor, management and government. Although no announcement has been made as to Mr. Dunlop's successor, there is speculation that W. J. Usery, Jr., Director of the Federal Mediation and Conciliation Service, will be appointed.

Legislation has been introduced to continue Title VII of the Comprehensive Employment and Training Act (CETA) through September 1977 and authorize another \$1.2 billion for fiscal year 1976. The bill (HR 11187), introduced by Chairman Daniels (D-NJ) of the House Labor Subcommittee on Manpower, is intended to break the legislative deadlock on extending emergency public service employment. Currently, HR 2584, which has been reported to the full House Labor Committee by the subcommittee, is deadlocked and Mr. Daniels hopes to offer his bill as a substitute at a full committee meeting shortly after Congress returns this week. It is expected that the \$1.2 billion authorization for the remainder of Fiscal Year 1976 could provide between 15,000 and 30,000 additional public employment jobs.

Applicants are being sought for the position of Assistant Director, Division of Exemptions, Variances and Determinations, Office of Employee Benefits Security. The Assistant Director is involved in the formulation and development of policies, plans, and procedures as they relate to interpretations under ERISA and the granting of deferments and exemptions. Candidates must have a sound background in financial institutions and regulatory practices and procedures with an understanding of the multiple types of employee benefit plans and the financial and legal legislative requirements related thereto. At least one year of experience must have been equivalent to a GS-15 in Federal service. Applications for this GS-16 position (\$36,338 - \$37,800 per year) are due by 1/31/76. For additional information call 202/523-7350.

Many of our subscribers have expressed an interest in obtaining copies of the "Interpretive Bulletins" being issued in connection with ERISA. Previously we had indicated that a government mailing list was being established; however,

the Department is not prepared to handle that function yet. Nine IB's have been issued so far. As a service to our subscribers, we will furnish a single set upon request. In calling, please make reference to this Wash. Report announcement (202/872-8190).

OFFICE OF MANAGEMENT AND BUDGET

Revised Circular No. A-95 has been published (see 1/13/76 Fed. Reg., p. 2052). The Circular, which will become effective 2/27/76, furnishes guidance to Federal agencies for cooperation with State and local government in the evaluation, review, and coordination of Federal and federally assisted programs and projects.

An Update to the 1975 "Catalog of Federal Domestic Assistance" has been issued. The catalog is a comprehensive listing and description of Federal programs and activities which provide assistance or benefits to the American public. Each program is described in terms of the specific type of assistance provided, the purpose for which it is available, who can apply for it, and how they should apply. It also identifies Federal offices that can be contacted for additional information on the program. The November update to the catalog of 1,009 programs administered by 55 Federal agencies, adds 38 programs, deletes 17 programs and reflects substantive changes in the provisions of 549 other programs. The Catalog is available through the GPO on a subscription basis for \$17.00.

Financial and management functions formerly residing in the GSA Office of Federal Management Policy have been transferred to OMB (Executive Order 11893). These functions, originally transferred from OMB to GSA in 1973, have been moved back to OMB due to congressional feelings that the GSA office would duplicate work of the Office of Federal Procurement Policy. Included in the transfer is the authority to implement the Joint Funding Simplification Act, regulations for which were just recently proposed (see 1/5/76 Washington Report Issue 45). A major function of the Office of Federal Management Policy has been the compiling and issuance of Federal Management Circulars (FMCs).

PAPERWORK COMMISSION

Paperwork problems associated with ERISA will be examined by the Commission at a public meeting on 1/29/76 starting at 9 a.m. in Room 2154, Rayburn House Office Building, Washington. The meeting will continue in the afternoon, at which time the Commission will examine the paperwork problems of State and local government in administering Federal grant programs, particularly education grant programs. On the following day, the Commission will meet in Room S407 of the U.S. Capitol to review progress on approved projects, staff proposals for future projects, and proposed Commission positions on specific paperwork problems. For additional information call 202/254-6786.

PENSION BENEFIT GUARANTY CORPORATION

The First Annual Report to the President and Congress dated June 30, 1975, has been released. The report discusses the problems and progress of the PBGC during Fiscal Year 1975 in establishing and administering an effective insurance program for plans covered under Title IV of ERISA. It includes an historical look at the enactment of ERISA, the organization of the PBGC, descriptions of the basic benefits program, and information on termination cases, reportable events, litigation, and future prospects. Copies of the report are available from the GPO for \$1.30 each.

RENEGOTIATION BOARD

"Causes of Excessive Profits on Defense and Space Contracts" (PSAD-75-56, 12/31/75) is a GAO report on determination of excessive profits during Fiscal Years, 1970 - 73. GAO found that most excessive profits were caused by a seller's market which lessened competition and let prices increase. They concluded that excessive profits were not caused, to any great extent, by inadequate procurement procedures and that renegotiation is desirable to prevent excessive profits which result from changed conditions that cannot be anticipated at the time of contract award. Copies of the report are available from the GAO Reports Department for \$1.00 each by calling 202/275-6241.

SECURITIES AND EXCHANGE COMMISSION

Commissioner A. A. Sommer, Jr., announced that he will leave the Commission either when his term expires in June or possibly sooner. At the same time, it was learned that he has been named to set up the review of corporate disclosure requirements announced by Chairman Hills at the AICPA Third National Conference on Current SEC Developments. The members of the outside advisory committee for the study, chosen from the accounting, legal, financial analysis, and academic communities, are expected to be announced by the end of the month and Chairman Hills is known to favor Mr. Sommer to head-up the study.

Hearings began last week on the subject of abuses of corporate power. The hearings, chaired by Sen. Proxmire before the Joint Economic Committee's Subcommittee on Priorities and Economy in Government, are focusing on bribes, kickbacks, illegal campaign contributions and other improper uses of corporate funds. On the first day of hearings, SEC Chairman Hills presented a status report on current and potential enforcement action, noting that about 30 major U.S. corporations are under investigation for concealing illegal contributions or bribes. In his prepared remarks, Chairman Hills, pointing to the fact that these payments are concealed from the companies' boards of directors "and often its auditors", concluded: "In my view, an effective system of corporate accountability requires that facts pertaining to illegal payments not be concealed from a corporation's independent accountants or its board of directors. Nothing else in the system will work unless the books and records are kept in good faith."

Certain amendments to regulations for the securities industry were announced in Rel. No. 34-11969, 1/5/76. The Uniform Net Capital Rule (Rule 15c3-1) was amended to provide an alternative financial responsibility standard for certain market makers, specialists, and dealers, which would replace the haircut provisions of the rule with certain equity requirements and the Early Warning Rule (17a-11) was also amended. The release also proposed to amend Rule 15c3-3 and Exhibit A, "Reserve Formula", to require broker-dealers to provide deductions from net worth for deficits in special omnibus accounts and for the excess market value over the contract value or collateral received with respect to failed to receive contracts and stocks loaned under certain conditions. Comments on the proposals are to be filed by 2/29/76.

TREASURY, DEPARTMENT OF

The need for an "oil windfall profits tax" has apparently been removed since enactment of the Energy and Oil Policy Act. Ways and Means Chairman Ullman, supported by Senate Finance Committee Chairman Long, has expressed the view that because of the slow pace of the decontrol in oil prices as called for under P.L. 94-163 that there are, in effect, no windfall profits.

Six recommendations of the Administrative Conference of the U.S. regarding the procedures of the IRS in administering the tax laws were adopted during the December 11-12 meeting. The changes are set forth in the 1/12/76 Fed. Reg. beginning on p. 1268.

John L. Withers has been promoted to the position of Assistant Commissioner (Technical). He succeeds Lawrence B. Gibbs, who is returning to private law practice. Mr. Withers joined the IRS in 1950 and was named this past September to the position of Associate Chief Counsel (Technical), the position he held immediately prior to this new appointment.

A proposal to provide for a highly qualified expert on the staff of the Joint Committee on Internal Revenue Taxation and another individual assigned to Treasury Department to represent the particular interests of small business has been suggested. Senate Resolution 306, the vehicle being used to provide for these "resident experts", is now before the Senate Small Business Committee. Anyone wishing to express an opinion on this proposal is encouraged to get in touch with that Committee.

Proposed changes to the regulations affecting group-term life insurance, wage continuation payments, and moving expenses have been issued in the 1/14/76 Fed. Reg., p. 2087. Comments will be accepted until 3/1/76.

The Administration's plan to provide estate tax relief for family farms and small businesses has drawn immediate criticism by the Chairman of the Senate Small Business Committee. While noting that it appears to go in the right direction, Chairman Nelson (D-Wis) indicated that it doesn't go far enough. Basically, the proposal involves a 5-year moratorium on the payment of estate taxes for family farms and small businesses valued up to \$300,000. After the 5-year moratorium on any payment expired, the deferred tax would be due in annual installments over the next 20 years with simple interest at the rate of 4 percent.

The 1976 edition of "Recordkeeping Requirements and a Guide to Tax Publications" is now available. Publication 552 carries a list of about 100 IRS pamphlets that are available free from any IRS office and also contains information pertaining to the Statute of Limitations for retention of records and other requirements. Copies of the publication are available free of charge from any IRS office.

SPECIAL: SEMINAR ON FINANCIAL REPORTING IN THE PUBLIC SECTOR SCHEDULED

The Washington Chapter of the Association of Government Accountants has scheduled a luncheon and afternoon seminar on the topic of "Sound Financial Reporting in the Public Sector - A Prerequisite to Fiscal Responsibility". The seminar, to be held 2/12/76 at George Washington University, Washington, D.C., will be moderated by Elsworth H. Morse, Jr., Assistant Comptroller General of the United States. Other speakers on the subject include David Mosso, Fiscal Assistant Secretary of the Department of Treasury; Donald Scantlebury, Director of the GAO Financial and General Management Studies Division; Charles Bowsher, of Arthur Andersen & Co.; and Dale McOmber, Assistant Director for Budget Review in the OMB. The panelists will discuss the feasibility, usefulness, and content of recent proposals for improving accountability and financial reporting in the federal government, including the development of a government-wide financial statement. For further information call 202/683-5297.

SPECIAL: TIMETABLE FOR REGULATORY REFORM PROPOSAL

A plan which would require the Congress and Executive branch to review the government's regulatory structure and practices with pre-determined deadlines leading to specific reforms over a 5-year period has been proposed by Sens. Percy (R-IL) and Byrd (D-WV). Thirty-five federal agencies have been divided into 5 target groups, each with its own year for "reckoning" "Banking and financial reform would be scheduled for 1977; energy and environment for 1978; commerce, transportation, and communications, 1979; food, health, and safety, 1980; housing, labor-management relations, equal employment, government procurement, and small business, 1981." There has been no indication that the Government Operations Committee intends to look at this bill, (S.2812), immediately.

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